Savings Basics

When you **save** money, you protect your *principal* – your original savings – and you make some extra money called *interest*. On the other hand, when you **invest** money, you risk loosing some of your money in exchange for the possibility of receiving more interest. Here are some things to think about when you start to save money.

<u>Where do I save my money?</u>:
Financial Institutions – banks, savings and loans, and credit unions – offer different ways to save. Types of accounts for saving your money may include:

- **Savings accounts** – also called share accounts at credit unions
- **Interest-bearing checking accounts** – also called NOW (Negotiable Orders of Withdrawal) accounts, Money Market accounts, or share-draft accounts
- **Certificates of deposit** — CD's
- **U.S. Government Securities** – for more information on savings bonds, Treasury bills, and other securities, go to the government's website: www.savingsbonds.gov

<u>Questions to ask when shopping around for a safe place for your savings</u>:

- **How much will my savings earn?**
  The interest rate is usually expressed as an annual rate, even if your interest is compounded or calculated monthly or quarterly. The terms "annual percentage yield," "rate of return," and "APR" all refer to this amount of interest earned on your savings account after one year.

- **How easy is it for me to access my money?**
  Sometimes the number of withdrawals allowed every month is limited. Other accounts come with checks or debit cards to allow you access to your money.

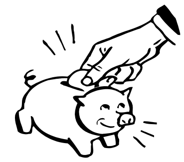
- **What's the minimum amount needed to open the account?**
  Some accounts may require a minimum, such as $100, to open an account, while others may require $1000 or more. Sometimes, savings accounts opened for children require a smaller amount of money to first open up the account.

- **Is there a minimum balance to keep the account open?**
  After you first open your account, some accounts allow you to keep a lower balance. Other accounts lower your interest rate, stop paying interest, or even start charging a fee if your account balance falls below a certain amount.

- **Does this account have a maturity date?**
  Maturity refers to the ending date of your savings contract, for example, the date when a 12-month certificate of deposit stops earning interest. Other accounts, like a savings account, let you keep adding money to your account for as long as you want.

- **Is the account "liquid" or "long-term"?**
  Certain "long-term" accounts, like CD's, may have penalties, such as losing some interest payments, if you take money out too soon. "Long-term" accounts usually pay you a higher interest rate in exchange for limiting access to your money. Make sure you have enough "liquid" savings — that is, savings you can withdraw anytime without a penalty — to cover emergencies and big upcoming expenses.

Choosing a Savings Account



Use this checklist when you're shopping for an account. The type of savings account you choose will depend on what you're saving your money for and when you'll need to use your money.

Name of Financial Institution:			
Type of Account:			
Annual Interest Rate:			
Is my money insured by the government?			
How much money do I need to open the account?			
How much do I need to keep in my account to avoid fees?			
Does this account have a maturity date? (Maturity means that it might stop paying interest or that you can take out money without losing some interest)			
Can I withdraw my savings when I need it?			
How many withdrawals can I make each month?			
Does this account come with checks or an ATM card?			
Are there any other fees or penalties?			
Other questions:			

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Sources: Bank On It, FDIC Money Smart — Financial Education Curriculum.
Selecting Banking Institutions and Services, Fact Sheet 302, Patricia Tengel. University of Maryland—Cooperative Extension Service, 1995.